

WARREN COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2003

WARREN COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS
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JUNE 30, 2003

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Warren County School District (the "District") as of and for the year then ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information of pages through and through, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the District. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the District's basic financial statements taken as a whole.

Shelton & Associates, LLP
September 26, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

DISTRICT-WIDE FINANCIAL STATEMENTS

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2003

See accompanying notes

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

PROPRIETARY FUND FINANCIAL STATEMENTS

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003

	Enterprise Funds		
	<u>Food Services</u>	<u>Day Care</u>	<u>Total</u>
ASSETS AND RESOURCES			
Current assets:			
Cash and cash equivalents	\$ 514,111	\$ 9,725	\$ 523,836
Accounts receivable:			
Accounts	13,651	-	13,651
Intergovernmental-Federal	29,935	-	29,935
Inventories for consumption	142,737	-	142,737
Total current assets	<u>700,434</u>	<u>9,725</u>	<u>710,159</u>
Noncurrent assets:			
Buildings	6,874,795	-	6,874,795
Furniture and equipment	2,240,901	-	2,240,901
Less accumulated depreciation	(3,556,006)	-	(3,556,006)
Total noncurrent assets	<u>5,559,690</u>	<u>-</u>	<u>5,559,690</u>
 TOTAL ASSETS	 <u>\$ 6,260,124</u>	 <u>\$ 9,725</u>	 <u>\$ 6,269,849</u>
CURRENT LIABILITIES			
Accounts payable	\$ 21,486	\$ -	\$ 21,486
Deferred Revenue	<u>20,128</u>	<u>-</u>	<u>20,128</u>
 TOTAL CURRENT LIABILITIES	 <u>41,614</u>	 <u>-</u>	 <u>41,614</u>
NET ASSETS:			
Invested in capital assets	5,559,690	-	5,559,690
Unrestricted	<u>658,820</u>	<u>9,725</u>	<u>668,545</u>
 TOTAL NET ASSETS	 <u>6,218,510</u>	 <u>9,725</u>	 <u>6,228,235</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 6,260,124</u>	 <u>\$ 9,725</u>	 <u>\$ 6,269,849</u>

See accompanying notes

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	Enterprise Funds		
	Food Services	Day Care	Total
OPERATING REVENUES			
Lunchroom sales	\$ 2,011,809	\$ -	\$ 2,011,809
Community service activities	365	53,532	53,897
Other operating revenues	13,052	-	13,052
TOTAL OPERATING REVENUES	2,025,226	53,532	2,078,758
OPERATING EXPENSES			
Salaries and wages	2,330,717	39,289	2,370,006
Contract services	203,241	-	203,241
Materials and supplies	2,159,893	4,518	2,164,411
Depreciation expense	309,135	-	309,135
Other operating expenses	6,330	-	6,330
TOTAL OPERATING EXPENSES	5,009,316	43,807	5,053,123
Operating income (loss)	(2,984,090)	9,725	(2,974,365)
NON-OPERATING REVENUES			
Federal grants-child nutrition program	1,864,541	-	1,864,541
Donated commodities	235,846	-	235,846
State matching and other	443,814	-	443,814
Interest income	7,268	-	7,268
TOTAL NON-OPERATING REVENUES	2,551,469	-	2,551,469
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(432,621)	9,725	(422,896)
SALE OF EQUIPMENT	760	-	760
LOSS ON DISPOSAL OF ASSET	(8,515)	-	(8,515)
CHANGE IN NET ASSETS	(440,376)	9,725	(430,651)
TOTAL NET ASSETS-JULY 1, 2002 (as restated)	6,658,886	-	6,658,886
TOTAL NET ASSETS-JUNE 30, 2003	\$ 6,218,510	\$ 9,725	\$ 6,228,235

See accompanying notes

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	Enterprise Funds		
	Food Services	Day Care	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from user charges	\$ 2,263,184	\$ 53,532	\$ 2,316,716
Cash received from other operating revenues	76,523	-	76,523
Cash payments to employees for services	(1,950,009)	(39,289)	(1,989,298)
Cash payments for contract services	(203,241)	-	(203,241)
Cash payments to suppliers for goods and services	(2,178,456)	(4,518)	(2,182,974)
Cash payments for other operating expenses	(6,330)	-	(6,330)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(1,998,329)	9,725	(1,988,604)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Grants received	1,856,863	-	1,856,863
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	7,268	-	7,268
NET DECREASE IN CASH AND CASH EQUIVALENTS	(134,198)	9,725	(124,473)
CASH AND CASH EQUIVALENTS JULY 1, 2002	648,309	-	648,309
CASH AND CASH EQUIVALENTS JUNE 30, 2003	<u>\$ 514,111</u>	<u>\$ 9,725</u>	<u>\$ 523,836</u>
Reconciliation of operating loss to net cash used in operating activities			
Operating income (loss)	\$ (2,603,382)	\$ 9,725	\$ (2,593,657)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	309,135	-	309,135
Commodities used	235,846	-	235,846
Loss on disposal of equipment	8,515	-	8,515
Changes in assets and liabilities:			
Receivables	(3,015)	-	(3,015)
Inventories	15,881	-	15,881
Accrued liabilities	18,563	-	18,563
Deferred revenue	20,128	-	20,128
Net cash provided by (used in) operating activities	<u>\$ (1,998,329)</u>	<u>\$ 9,725</u>	<u>\$ (1,988,604)</u>

See accompanying notes

FIDUCIARY FUNDS FINANCIAL STATEMENTS

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Private- Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 8,279	\$ 911,501
Investments	23,799	-
Accounts receivable	-	1,252
TOTAL ASSETS	<u>\$ 32,078</u>	<u>\$ 912,753</u>
LIABILITIES		
Accounts payable	\$ -	\$ 11,858
Due to bondholders	-	33,706
Due to student groups	-	226,547
Due to students in general	-	562,642
Due to teachers	-	78,000
TOTAL LIABILITIES	<u>-</u>	<u>\$ 912,753</u>
NET ASSETS		
Held in trust for scholarships	-	
Held in trust for other purposes	32,078	
TOTAL NET ASSETS	<u>32,078</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 32,078</u>	

See accompanying notes

WARREN COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003

	Private- Purpose Trusts
ADDITIONS	
Interest income	\$ 791
DEDUCTIONS	-
CHANGE IN NET ASSETS	791
NET ASSETS, JULY 1, 2002	<u>31,287</u>
NET ASSETS, JUNE 30, 2003	<u><u>\$ 32,078</u></u>

See accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

WARREN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Warren County Board of Education (the "Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Warren County School District (the "District"). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Warren County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, and etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Warren County School District Finance Corporation – The Warren County, Kentucky, Board of Education has established the Warren County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Warren County Board of Education also comprise the Corporation's Board of Directors.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local

governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain significant changes in the Statement include the following:

- The financial statements now include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the District's activities, including capital assets.
 - A change in the fund financial statements to focus on the major funds.

The District adopted GASB Statement No. 34 in the fiscal year ended June 30, 2002.

BASIS OF PRESENTATION

District-Wide Financial Statements

The statement of net assets and statement of activities display information about the School District as a whole. They include all funds of the reporting entity except for the fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The district-wide statements are prepared using the economic measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The district-wide statement of activities presents a comparison between direct expense and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues

include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and charges paid by the recipient of the goods or services offered by the program. Revenues not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct identifies the extent to which each business segments or governmental function is self-financing or draws from the general revenues of the District.

In the district-wide Statement of Net Assets and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included

on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resources measurement focus.

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset use.

The funds of the financial reporting entity are described below:

I. Governmental Funds

Major Funds

- A. The General Fund is the primary operating fund of the District and is always classified as a major fund per GASB Statement No. 34. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. Reservations have been placed on the fund balance for outstanding encumbrances, allocation to the schools' site based decision making councils and accrued sick leave (Note F).
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial assistance programs where unused balances are returned to the grantor at the close of specified project periods, as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards

included in this report. The Kentucky Department of Education has deemed this fund always be classified as a major fund.

C. Capital Project Funds are used to account for financial resources restricted for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The District includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made from the General Fund.

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan. This fund is now accounted for in the Special Revenue Fund per the discretion of the Kentucky Department of Education.
4. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

D. Occupational Tax Office Fund is used to account for the occupational license tax collected from salaries, wages, commissions, and other compensation earned by persons residing within the Warren County School District and the net profits of all businesses, occupations, and professions located in the Warren County School District from activities conducted within Warren County, Kentucky.

Nonmajor Funds

The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal, interest, and related costs on the general long-term debt of the District, including the payment of interest on general obligation notes payable, as required by Kentucky law.

The Permanent Fund accounts for assets held by the District pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

II. Proprietary Funds

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods and services. The District's enterprise funds are the School Food Service Fund and the Day Care operated out of Greenwood High School. The School Food Service Fund is used to account for the financial transactions related to the food service operations of the District.

III. Fiduciary Funds

Agency Funds

Agency funds account for assets held by the District in a purely custodial capacity. The reporting entity includes two agency funds. Since agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations.

- A. The School Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.
- B. The Bond Proceeds Trust Fund is used to account for the proceeds and issuance costs of bond issues. The balance in the account is restricted for debt service related expenditures.

Private-Purpose Trust Funds

The Private-Purpose Trust Fund can only be used to purchase textbooks for needy students. These purchases are made from interest received from a fixed investment accounted for in the permanent fund.

CASH AND CASH EQUIVALENTS

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

INVESTMENTS

Investments are carried at cost which approximates market value.

ACCOUNTS RECEIVABLE

Receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include federal and state funding and taxes. Amounts on the statements are net of allowance for doubtful accounts.

INVENTORIES

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the Enterprise Fund. Inventory consists of donated and purchased food held for resale and are expensed when used. Purchased food is valued at cost and U.S. Government donated commodities value is determined by the U.S. Department of Agriculture.

CAPITAL ASSETS

The accounting treatment over property and equipment (fixed assets) depends on whether they are reported in the district-wide or fund financial statements.

District-Wide Statements

In the district-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	50 years
Building Improvements	25 years
Technology Improvements	5 years
School Buses	10 years
Vehicles	5 years
Food Service Equipment	12 years
Audio-Visual Equipment	15 years
Other General Equipment	10 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as expenditures of the governmental fund. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide statements.

LONG-TERM DEBT

District-Wide Statements

All long-term debt to be repaid from governmental resources is reported as liabilities in the district-wide statements. The long-term debt consists primarily of capital lease obligations and compensated absences.

Fund Financial Statements

Long-term debt is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenue and payment of principal and interest reported as expenditures. There are no long-term debt obligations recorded in the proprietary funds as these funds are not responsible for paying the debt.

COMPENSATED ABSENCES

The District's policies regarding sick leave permit employees to accumulate earned but unused sick leave.

The entire compensated absence liability is reported on the district-wide financial statements. The current portion of this debt is estimated based on employees who have twenty-seven years of service as of June 30, 2003 and is calculated at thirty percent of their total accumulated sick leave.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. The noncurrent portion of the liability is not reported. No liability is accrued in the proprietary fund.

EQUITY CLASSIFICATIONS

District-Wide Statements

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, or laws or regulations, or 2) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the district-wide statements.

ENCUMBRANCE ACCOUNTING

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements. Fund balances of the respective funds have been reserved for outstanding encumbrances at June 30, 2003.

REVENUES — EXCHANGE AND NON-EXCHANGE TRANSACTIONS

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is not recognized until there is an enforceable legal claim. This legal claim does not arise until the taxes become delinquent, which is the fiscal year after the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

DEFERRED REVENUE

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

In order to present the Special Revenue Fund on the accrual basis of accounting, and because the awards are not yet available as assets, cash awards received in advance for the 2003-2004 school year have been classified as deferred revenues. Likewise, all awards requested as a result of 2002-2003 expenditures have been classified as receivables. Revenues of the Special Revenue Fund are considered earned when reimbursable expenditures are made or obligations are incurred, and of an equal amount. This results in a zero fund balance in the Special Revenue Fund.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

PROPERTY TAXES

Property taxes collected are reported as revenues in the fund for which they were levied. Property taxes are based on property valuations on January 1. The tax rate is generally agreed to by the Board in the following September, and contingent upon state approval, the tax will be due in November or December of the same year.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

BUDGETARY PRINCIPLES

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when the obligation is incurred (GAAP).

INTERFUND RECEIVABLES AND PAYABLES

Each fund is a distinct fiscal and accounting entity, and thus interfund transactions are recorded in each fund affected by a transaction. During the year the General Fund receives and disburses funds that relate to other funds or activities, such as the School Food Service Fund, the School Activity Fund, SEEK Capital Outlay Fund, Debt Service fund, Technology Fund, Special Revenue Fund, and the School Construction Fund. Transfers are then made between the various funds to more properly reflect the nature of the transactions. At June 30, 2003, substantially all such transfers had been made and no significant interfund payables or receivables existed.

NOTE B – CASH AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trusts with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

The District, upon approval by the Board of Education, invests funds in time deposits and certificates of deposit with the depository or other financial institutions based upon prevailing interest rates.

At June 30, 2003 the carrying amount of the District's deposits was \$14,978,664. Of the total cash balance, \$200,000 was covered by Federal depository insurance, with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name.

Cash accounts of the School Construction Fund, Bond Proceeds Fund, and the Debt Service Fund are held in trust by local financial institutions with normally insignificant amounts in non-trust accounts.

Kentucky Revised Statutes authorize the District to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Technology Fund (accounted for within the Special Revenue Fund), Special Revenue Fund, Debt Service Fund, Bond Proceeds Fund, School Construction Fund, School Food Service Fund, and School Activity Funds.

NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

Governmental Activities	Balance at 7/01/02	Additions	Disposals	Balance at 6/30/03
Land	\$ 2,512,600	\$ -	\$ -	\$ 2,512,600
Infrastructure	1,358,477	-	-	1,358,477
Buildings	92,980,455	7,767,998	-	100,748,453
Technology Equipment	9,867,501	840,901	651,485	10,056,917
Vehicles	8,631,477	-	188,735	8,442,742
Other Machinery & Equipment	1,758,033	771,096	68,550	2,460,579
Construction Work in Process	1,797,043	-	646,834	1,150,209
Total at Historical Cost	118,905,586	<u>\$ 9,379,995</u>	<u>\$ 1,555,604</u>	126,729,977
Accumulated Depreciation	<u>(34,543,884)</u>			<u>(37,194,887)</u>
Governmental Activities Capital Assets, net	<u>\$ 84,361,702</u>			<u>\$ 89,535,090</u>

Business-Type Activities	Balance at 7/01/02	Additions	Disposals	Balance at 6/30/03
Buildings	\$ 6,874,795	\$ -	\$ -	\$ 6,874,795
Technology Equipment	107,472	-	-	107,472
Other Machinery & Equipment	2,121,120	40,109	27,800	2,133,429
Totals at Historical Cost	9,103,387	<u>\$ 40,109</u>	<u>\$ 27,800</u>	9,115,696
Accumulated Depreciation	<u>(3,342,335)</u>			<u>(3,556,006)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 5,761,052</u>			<u>\$ 5,559,690</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 2,850,004
Support Services:	
Student	7,099
Instructional staff	5,845
District administration	4,026
School administration	819
Business	9,643
Plant operations and maintenance	144,421
Student transportation	490,889
Central office	12,641
Non-instructional	<u>102,056</u>
Total Depreciation Expense	<u>\$ 3,627,443</u>

NOTE D – COMMITMENTS FOR SCHOOL CONSTRUCTION AND RELATED BONDS AND SUBSEQUENT EVENTS

In August 2002, the Board approved construction of 9,188 square feet of additional office and service space at the Transportation Department. Existing HVAC and service equipment is being upgraded or replaced. This project has an estimated cost of \$1,531,460 with a balance of \$381,251 to be expended during the 2004 fiscal year.

Subsequent to year-end, a bond was issued in July of 2003 in the amount of \$9.975 million to finance the cost of the additions to Drakes Creek Middle School, Henry F. Moss Middle School, and Warren East Middle School.

NOTE E – LEASE OBLIGATIONS

CAPITAL LEASES

The amount shown in the accompanying district-wide financial statements as lease obligations represents the District's future obligations to make lease payments relating to school building revenue bonds issued by the Warren County Fiscal court (the Fiscal Court) and the Warren County School District Finance Corporation (the Finance Corporation) on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

The General Fund, SEEK Capital Outlay Fund, and the FSPK Building Fund are obligated to make lease payments. The lease agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Fiscal Court or the Finance Corporation to construct school facilities and the District with the option to purchase the property under

lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become the property of the District. The District must generally make sinking fund payments by the fifteenth day of the month prior to scheduled bond and interest payment dates. The District is also obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

Following is a schedule of lease obligations existing at June 30, 2003:

<u>Lease Agreement Dated</u>	<u>Bond Issue Number</u>	<u>Interest Rates of Related Bond Issue</u>	<u>Final Lease Payment Date</u>
March 1, 1994	XXII	5.10%-5.25%	March 1, 2004
August 1, 1995	XXIII	3.50%-5.20%	August 1, 2008
December 1, 1995	XXIV	4.00%-5.125%	Dec. 1, 2015
June 1, 1996	XXV	5.10%-5.60%	June 1, 2016
February 1, 1998	XXVI	3.80%-4.50%	April 1, 2011
June 1, 1998	XXVII	3.95%-4.75%	June 1, 2018
February 1, 1999	XXVIII	4.00%-4.60%	February 1, 2019
April 1, 2000	XXIX	4.75%-5.50%	April 1, 2020
February 1, 2001	XXX	4.00%-4.75%	February 1, 2021

Subsequent to year-end (See Note L):

June 1, 2003	XXXI	2.00%-3.75%	June 1, 2023
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Following are aggregate lease obligations existing at June 30, 2003:

<u>Year Ending June 30,</u>	<u>Warren County School District</u>		<u>Kentucky School Facility Construction Commission</u>		<u>Total Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2004	\$ 1,944,215	\$ 1,823,846	\$ 1,335,785	\$ 492,419	\$ 5,596,265
2005	2,037,004	1,737,816	1,397,996	426,576	5,599,392
2006	2,129,243	1,645,695	1,460,757	356,708	5,592,403
2007	2,225,643	1,547,512	1,534,357	282,243	5,589,755
2008	2,332,740	1,443,365	1,607,260	203,460	5,586,825
2009-2013	11,245,626	5,573,949	2,299,374	437,965	19,556,914
2014-2018	10,783,777	2,887,441	626,223	140,122	14,437,563
2019-2023	5,443,918	538,781	246,082	23,792	6,252,573
	<u>\$ 38,142,166</u>	<u>\$ 17,198,405</u>	<u>\$ 10,507,834</u>	<u>\$ 2,363,285</u>	<u>\$ 68,211,690</u>

Following is the aggregate lease obligations including subsequent issue (Note L):

Year Ending <u>June 30,</u>	Total Debt <u>Service</u>	Subsequent Issue <u>Principal</u>	<u>Interest</u>	Adjusted Total Debt <u>Service</u>
2004	\$ 5,596,265	\$ 550,000	\$ 299,852	\$ 6,446,117
2005	5,599,392	560,000	288,852	6,448,244
2006	5,592,403	575,000	277,652	6,445,055
2007	5,589,755	585,000	266,152	6,440,907
2008	5,586,825	600,000	254,452	6,441,277
2009-2013	19,556,914	2,170,000	1,076,400	22,803,314
2014-2018	14,437,563	2,215,000	753,467	17,406,030
2019-2023	<u>6,252,573</u>	<u>2,720,000</u>	<u>314,438</u>	<u>9,287,011</u>
	<u>\$ 68,211,690</u>	<u>\$ 9,975,000</u>	<u>\$ 3,531,265</u>	<u>\$ 81,717,955</u>

A summary of lease principal balances is as follows:

	Balance at <u>July 1, 2002</u>	<u>Issued</u>	<u>Retired</u>	Balance at <u>June 30, 2003</u>
District	\$ 40,022,487	\$ -	\$ 1,866,681	\$ 38,155,806
Commission	<u>11,767,513</u>	<u>-</u>	<u>1,273,319</u>	<u>10,494,194</u>
	<u>\$ 51,790,000</u>	<u>\$ -</u>	<u>\$ 3,140,000</u>	<u>\$ 48,650,000</u>

All assets acquired under capital leases are included in the district-wide financial statements within "depreciated capital assets" and, accordingly, are depreciated. On the governmental fund financial statements, payments on capital lease obligations are recognized as expenditures.

OPERATING LEASES

The District maintains a leasing arrangement through the Kentucky Interlocal School Transportation Association for school buses used by the District. The lease has a term of one year and is renewable annually at the option of the District. The lease is accounted for as an operating lease and is expended in the General Fund.

NOTE F – ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2003, this amount totaled \$734,531 for those certified employees with twenty-seven or more years of experience and is reflected as a current liability on the district-wide financial statements. Management has

estimated that all of this amount will eventually become an expenditure of the District. Management has estimated that the long-term obligation will be approximately \$4.5 million.

In accordance with GASB Statement No. 34, the government fund financial statements reflect the current portion of sick leave payable of \$269,265. This is the amount anticipated to be funded with current year's economic financial resources.

NOTE G – RETIREMENT PLANS

KENTUCKY TEACHERS' RETIREMENT:

All certified employees are covered under the Teachers' Retirement System of the State of Kentucky (KTRS). KTRS, a cost-sharing, multiple-employer defined benefit plan provides retirement benefits based on an employee's final average salary and number of years service. Benefits are subject to certain reductions if the employees retire before reaching age fifty-five, unless the employee has twenty-seven or more years of participation in the plan. KTRS provides retirement benefits, as well as for death and disability benefits to plan members.

Funding for the plan is provided from eligible employees who contribute 9.855% of their salary through payroll deductions and by the Commonwealth of Kentucky through matching contributions at the rate of 13.105%. Contribution requirements of the plan members and the District are established by Kentucky Revised Statutes and the KTRS Board of Trustees.

The payroll for employees covered under KTRS was \$33,273,971. For the year ended June 30, 2003, the Commonwealth contributed \$4,154,744 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the year ended June 30, 2003 were \$205,810 which represent those employees covered by federal programs.

The Kentucky Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868.

COUNTY EMPLOYEES' RETIREMENT SYSTEM:

Classified employees (substantially all full-time Board employees other than certified employees) are covered by the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. CERS provides for retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State legislature.

Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5.00% of their annual salary through payroll deductions and the Board is required to contribute at an actuarially determined rate. The current rate is 6.34% of the employee's total covered compensation. The District's contributions to CERS for the year ended June 30, 2003 were \$681,227, equal to the required contribution for that year.

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE H — ON-BEHALF PAYMENTS

For the fiscal year 2003, the Commonwealth of Kentucky contributed estimated payments on-behalf of the District's employees of \$8,615,738 to the health insurance carriers and the flexible spending account vendors. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, establishes accounting and reporting standards for on-behalf payments. In accordance with the standard, the District recognized an expense and revenue for this payment on the District-Wide Financial Statements.

NOTE I — CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J — INSURANCE AND RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated including workers' compensation insurance. Premiums for these policies are based upon the District's experience to date.

The District is also exposed to various risks of loss related to torts, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminates coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) will be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K – RECONCILIATION OF FINANCIAL STATEMENTS TO ANNUAL FINANCIAL REPORT FILED WITH THE KENTUCKY DEPARTMENT OF EDUCATION

The District does not recognize the cash held in the Debt Service Fund for unpresented bond and interest coupons, nor does the District recognize the debt service payments of the Commission as revenues and expenditures. Additionally, activities of the Expendable and Non-Expendable Trust Funds are not recognized in the District's Annual Financial Report filed with the Kentucky Department of Education. The corresponding amounts have been included in the district-wide financial statements in order for the statements to conform to generally accepted accounting principles

NOTE L – SUBSEQUENT EVENT

On July 22, 2003, the District issued \$9,975,000 of school building revenue bonds (Series of 2003). The bonds carry interest rates of 2.00% and 3.75% and mature between June 1, 2004 and June 1, 2023

NOTE M – TRANSFER OF FUNDS

Interfund transfers are eliminated in the governmental and business-type activities columns of the district-wide statement of net assets. As reflected on the fund financial statements, the following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Occupational Tax Office	General	Occupational License Tax	\$ 4,565,000
General Fund	Special Revenue	Technology Match	79,638
Capital Outlay	Debt Service	Debt Service	163,390
Building Fund	Debt Service	Debt Service	<u>3,570,461</u>
Total transfers in			8,378,489
Permanent Fund	Private-purpose		
	Trust Fund	Interest Earnings	<u>101</u>
Total transfers out			<u>\$ 8,378,590</u>

NOTE N – LITIGATION

A third party complaint was filed against the Warren County Board of Education (the Board) alleging that the Board either withheld appropriate information or negligently failed to disclose all pertinent information relative to former employee's background, skills, and qualifications. The third party admits the information about the former employee was not requested from the Board. The Board believes the complaint is without merit.

NOTE O –PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2003, the District discovered errors made in the prior period in accounting for capital assets. The building portion cost allocated to food service for four elementary schools had not been reclassified from governmental funds to proprietary funds. The net of the cost and accumulated depreciation of \$1,197,768 was reclassified from the governmental fund to the proprietary funds.

The District also discovered a school bus overvalued on the books by the amount of \$551,084. Several buses were recorded as one asset line item by the valuation company during the implementation of GASB No. 34. The District then created a separate asset line for each of the buses and failed to adjust the cost of the initial asset.

The effect of the prior period adjustment is reflected on the schedule below.

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Net Assets, June 30, 2002 as previously reported	\$ 44,742,776	\$ 5,461,118
Prior Period Adjustment	<u>(1,748,853)</u>	<u>1,197,768</u>
Adjusted Net Assets July 1, 2002	<u>\$ 42,993,923</u>	<u>\$ 6,658,886</u>

REQUIRED SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION

WARREN COUNTY SCHOOL DISTRICT
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2003

	Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 11,225	\$ 7,475	\$ 18,700
Accounts receivable:			
Taxes	-	-	-
Accounts	-	-	-
Intergovernmental-State	-	-	-
Intergovernmental-Federal	-	-	-
Prepaid Insurance	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 11,225</u>	<u>\$ 7,475</u>	<u>\$ 18,700</u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued sick leave payable	-	-	-
Matured bonds outstanding	5,000	-	5,000
Matured interest outstanding	6,225	-	6,225
Accrued payroll and related expenses	-	-	-
Deferred revenues	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>11,225</u>	<u>-</u>	<u>11,225</u>
FUND BALANCES			
Reserved for:			
Encumbrances	-	-	-
SBDM	-	-	-
Accrued sick leave	-	-	-
Capital projects	-	-	-
Other purposes	-	7,475	7,475
Restricted for technology purchases	-	-	-
Unreserved	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>-</u>	<u>7,475</u>	<u>7,475</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,225</u>	<u>\$ 7,475</u>	<u>\$ 18,700</u>

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

WARREN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS-CAPITAL PROJECT FUNDS
JUNE 30, 2003

WARREN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUNDS
FOR YEAR ENDED JUNE 30, 2001

WARREN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CONSTRUCTION FUNDS
JUNE 30, 2002

CONSTRUCTION FUNDS REVENUES/EXPENDITURES

WARREN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CONSTRUCTION FUNDS
JUNE 30, 2002

WARREN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
FIDUCIARY FUND — ACTIVITY AND TRUST FUNDS
JUNE 30, 2001

FIDUCIARY REVENUES

WARREN COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 SCHOOL ACTIVITY FUNDS (AGENCY FUND)
 JUNE 30, 2003

	HIGH SCHOOLS	MIDDLE SCHOOLS	ELEMENTARY SCHOOLS	TOTAL ACTIVITY FUNDS
ASSETS AND RESOURCES				
Cash and cash equivalents	\$ 341,399	\$ 227,721	\$ 308,675	\$ 877,795
Investments	-	-	-	-
Accounts receivable:				-
Taxes-current	-	-	-	-
Taxes-delinquent	-	-	-	-
Accounts	718	271	263	1,252
Intergovernmental-State	-	-	-	-
Intergovernmental-Federal	-	-	-	-
Amounts to be provided for retirement of General Long- Term Obligations	-	-	-	-
TOTAL ASSETS AND RESOURCES	<u>\$ 342,117</u>	<u>\$ 227,992</u>	<u>\$ 308,938</u>	<u>\$ 879,047</u>
LIABILITIES				
Accounts payable	\$ 3,535	\$ 37	\$ 8,286	\$ 11,858
Due to Student Groups	160,245	56,884	9,418	226,547
Due to Teachers	60,676	3,949	13,375	78,000
Due to Students in General	<u>117,661</u>	<u>167,122</u>	<u>277,859</u>	<u>562,642</u>
TOTAL LIABILITIES	<u>\$ 342,117</u>	<u>\$ 227,992</u>	<u>\$ 308,938</u>	<u>\$ 879,047</u>

WARREN COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND DUE TO
 SCHOOL ACTIVITY FUNDS (AGENCY FUND)
 FOR THE YEAR ENDED JUNE 30, 2003

	GREENWOOD HIGH	WARREN CENTRAL HIGH	WARREN EAST HIGH	TOTAL HIGH SCHOOLS
REVENUES:				
From other local sources:				
Accounts:				
General	\$ 110,176	\$ 85,126	\$ 52,600	\$ 247,902
Interest	1,711	1,941	2,023	5,675
Yearbook	48,462	18,625	19,607	86,694
Athletics	127,751	123,137	69,557	320,445
Clubs	113,086	67,926	127,449	308,461
Families/Teachers	4,346	2,300	3,478	10,124
Trips	-	-	-	-
Other	-	-	-	-
TOTAL REVENUES	405,532	299,055	274,714	979,301
EXPENDITURES:				
Accounts				
General	103,088	85,483	49,609	238,180
Interest	1,711	-	1,915	3,626
Yearbook	43,810	16,055	19,318	79,183
Athletics	136,601	112,714	75,002	324,317
Clubs	112,505	64,248	120,726	297,479
Families/Teachers	4,439	3,132	4,021	11,592
Trips	-	-	-	-
Other	-	-	-	-
TOTAL EXPENDITURES	402,154	281,632	270,591	954,377
Excess (deficit) of revenues over expenditures	3,378	17,423	4,123	24,924
Due to Student Groups & Others July 1, 2002	94,570	100,097	118,991	313,658
Due to Student Groups & Others June 30, 2003	\$ 97,948	\$ 117,520	\$ 123,114	\$ 338,582

WARREN COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 HIGH SCHOOL ACTIVITY FUNDS (AGENCY FUND)
 JUNE 30, 2003

	GREENWOOD HIGH	WARREN CENTRAL HIGH	WARREN EAST HIGH	TOTAL HIGH SCHOOLS
ASSETS AND RESOURCES				
Cash and cash equivalents	\$ 98,348	\$ 119,875	\$ 123,176	\$ 341,399
Investments	-	-	-	-
Accounts receivable:				-
Taxes-current	-	-	-	-
Taxes-delinquent	-	-	-	-
Accounts	-	45	673	718
Intergovernmental-State	-	-	-	-
Intergovernmental-Federal	-	-	-	-
Amounts to be provided for retirement of General Long- Term Obligations	-	-	-	-
TOTAL ASSETS AND RESOURCES	\$ 98,348	\$ 119,920	\$ 123,849	\$ 342,117
LIABILITIES				
Accounts payable	\$ 400	\$ 2,400	\$ 735	\$ 3,535
Due to Student Groups	39,408	59,691	61,146	160,245
Due to Teachers	56	41	60,579	60,676
Due to Students in General	58,484	57,788	1,389	117,661
TOTAL LIABILITIES	\$ 98,348	\$ 119,920	\$ 123,849	\$ 342,117

WARREN COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND DUE TO
 HIGH SCHOOL ACTIVITY FUNDS (AGENCY FUND)
 FOR THE YEAR ENDED JUNE 30, 2003

	<u>GREENWOOD HIGH</u>	<u>WARREN CENTRAL HIGH</u>	<u>WARREN EAST HIGH</u>	<u>TOTAL HIGH SCHOOLS</u>
REVENUES:				
From other local sources:				
Accounts:				
General	\$ 110,176	\$ 85,126	\$ 52,600	\$ 247,902
Interest	1,711	1,941	2,023	5,675
Yearbook	48,462	18,625	19,607	86,694
Athletics	127,751	123,137	69,557	320,445
Clubs	113,086	67,926	127,449	308,461
Families/Teachers	4,346	2,300	3,478	10,124
Trips	-	-	-	-
Other	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES	405,532	299,055	274,714	979,301
EXPENDITURES:				
Accounts				
General	103,088	85,483	49,609	238,180
Interest	1,711	-	1,915	3,626
Yearbook	43,810	16,055	19,318	79,183
Athletics	136,601	112,714	75,002	324,317
Clubs	112,505	64,248	120,726	297,479
Families/Teachers	4,439	3,132	4,021	11,592
Trips	-	-	-	-
Other	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	402,154	281,632	270,591	954,377
Excess (deficit) of revenues over expenditures	3,378	17,423	4,123	24,924
Due to Student Groups & Others July 1, 2002	<u>94,570</u>	<u>100,097</u>	<u>118,991</u>	<u>313,658</u>
Due to Student Groups & Others June 30, 2003	<u>\$ 97,948</u>	<u>\$ 117,520</u>	<u>\$ 123,114</u>	<u>\$ 338,582</u>

WARREN COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND DISBURSEMENTS
GREENWOOD HIGH SCHOOL ACTIVITY FUNDS (AGENCY FUND)
FOR THE YEAR ENDED JUNE 30, 2003

WARREN COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND DISBURSEMENTS
WARREN CENTRAL HIGH SCHOOL ACTIVITY FUNDS (AGENCY FUND)
FOR THE YEAR ENDED JUNE 30, 2003

REPORTS REQUIRED BY THE SINGLE AUDIT ACT

SCHEDULE OF EXPENDITURES

WARREN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

NOTE A — BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Warren County School District and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

NOTE B — FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2003, the District had donated food commodities valued at \$79,355 in inventory.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Kentucky State Committee For School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky

We have audited the financial statements of the Warren County School District (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated September 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements* and *Appendix II to the Independent Auditor's Contract - State Audit Requirements*.

Compliance

As part of obtaining reasonable assurance about whether the Warren County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance with specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*.

Kentucky State Committee For School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Warren County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Warren County School District in a separate letter dated September 26, 2003.

This report is intended for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Shelton & Associates, LLP
September 26, 2003

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

State Committee For School District Audits
and Members of the Board of Education
Warren County School District
Bowling Green, Kentucky

Compliance

We have audited the compliance of the Warren County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Warren County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Warren County School District's management. Our responsibility is to express an opinion on the Warren County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Warren County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Warren County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the Warren County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Warren County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WARREN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the Warren County School District.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Warren County School District, which would be required to be reported in accordance with *Government Auditing Standards*, were identified during the audit.
4. No reportable conditions were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the Warren County School District expresses an unqualified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for the Warren County School District.
7. The programs tested as major programs included:
 - a. Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559)
 - b. WKU Juvenile Delinquency Prevention Program (CFDA 16.541)
 - c. Title I (CFDA 84.010)
 - d. Title II (CFDA 84.367)
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. The Warren County School District did not qualify to be a low-risk auditee.

MANAGEMENT LETTER POINTS

Kentucky State Committee for School District Audits
and Members of the Board of Education
Warren County Board of Education
Bowling Green, Kentucky

In planning and performing our audit of the general purpose financial statements of the Warren County School District for the year ended June 30, 2003, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance of the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Shelton & Associates, LLP
September 26, 2003

WARREN COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
JUNE 30, 2003

Proprietary Fund

Condition – Per physical inventory observation, it was noted that not all schools were conducting a physical count. There were instances where schools were relying on their perpetual records instead of conducting a physical count at year-end.

Criteria – The internal control of reconciling the physical inventory count to perpetual inventory balances should be in place in order to assure that all usage and spoilage is properly accounted for, and proper reporting results.

Cause – Food Service employees were not properly trained and supervised.

Recommendation – Provide inventory training to the cafeteria personnel and have personnel at the Central Office periodically observe and assist with the monthly physical count.

Response – Management agrees with the finding and the recommendation will be adopted.

Fiduciary Funds – School Activity Funds

I. Condition – The Teacher's Multiple Receipt Form is not properly completed in accordance *Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book)

Criteria – A *Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) requires each student's signature and amount paid be listed separately.

Cause – School employees were not properly trained.

Effect –Noncompliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book).

Recommendation –Educate all school personnel about the policy and monitor that it was properly implemented.

Response – Management agrees with the finding and the recommendation will be adopted.

II. Condition –Money collected by teachers is not given to the treasurer on a daily basis in relation to fundraisers and book fairs.

Criteria – *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) states that funds are to be deposited on a daily basis. Amounts less than \$100 can be deposited weekly.

Cause – School employees were not aware they were in violation of the requirement.

Effect – Noncompliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book).

Recommendation – Educate all school personnel about the policy and monitor that it is enforced.

Response – Management agrees with the finding and the recommendation will be adopted.

III. Condition – The Fundraiser Form is not properly completed in accordance *Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book)

Criteria – *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) requires a fundraiser form be completed. This includes listing receipts collected per day and the expenditures with the balance showing profit/loss.

Cause – School employees were not properly trained.

Effect –Noncompliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book).

Recommendation –Educate all school personnel about the policy and monitor that it properly implemented.

Response – Management agrees with the finding and the recommendation will be adopted.

